

## Message Text

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ACTION NEA-10

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----- 065200

R 251045Z AUG 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 1716

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: PAKISTAN'S BALANCE OF PAYMENTS 1974/75

1. SUMMARY: PRELIMINARY ESTIMATES OF PAKISTAN'S BALANCE OF PAYMENTS FOR FY 1974/75 SHOW A TRADE DEFICIT OF \$1,093 MILLION BUT AN OVERALL DEFICIT OF ONLY \$126 MILLION. TRADE GAP WAS LARGELY COVERED BY FOREIGN AID. THE SMALL OVERALL DEFICIT WAS MET BY GENEROUS IMF DRAWINGS WHICH LED TO AN INCREASE IN THE COUNTRY'S GOLD AND FOREIGN EXCHANGE RESERVES OF \$93 MILLION. OUTLOOK FOR FY 1976 IS WORRISOME AND PROSPECTS ARE FOR A LARGER OVERALL DEFICIT. END SUMMARY.

2. ALTHOUGH OFFICIAL, PUBLISHED BALANCE OF PAYMENTS FIGURES FOR 1974/75 WILL PROBABLY NOT BE AVAILABLE FOR SOME TIME, OUR ESTIMATES, BASED ON FIGURES FROM THE PLANNING COMMISSION, ARE AS FOLLOWS:

BALANCE OF PAYMENTS 1974/75

(\$ MILLION)

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EXPORTS	1047	
IMPORTS (1)	2140	
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TRADE BALANCE		-1093
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INVISIBLE RECEIPTS (EST)	556	
(2)		
(OF WHICH: REMITTANCES	204)	
INVISIBLE PAYMENTS	605	
(OF WHICH: INTEREST		
ON FOREIGN DEBT	88)	
CURRENT ACCOUNT BALANCE		-1142
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AMORTIZATION OF FOREIGN		
DEBT	-147	
LONG-TERM CAPITAL	1022	
BASIC BALANCE		-267
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SHORT TERM BORROWINGS (3)	115	
E&O	26	
OVERALL DEFICIT		-126
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FINANCED BY: IMF	219	
CHANGE IN RESERVES	-93	(INCREASE)

## NOTES:

(1) BASED ON FOOD WING ESTIMATE OF 1.5 MILLION TONS OF WHEAT IMPORTS.

(2) RECEIPTS TO APRIL \$463 MILLION, OF WHICH \$204 MILLION REMITTANCES.

(3) MOSTLY TO FINANCE WHEAT IMPORTS.

3. THE USE OF IMF RESOURCES INCLUDE SDR 125 MILLION FROM THE OIL FACILITY AND SDR 51 MILLION DRAWN UNDER THE STANDBY AGREEMENT. OVERALL RESERVES AS OF JUNE 30 STOOD AT \$470 MILLION AS AGAINST \$376 MILLION THE YEAR BEFORE.

4. THE STATE BANK'S PRELIMINARY BALANCE OF PAYMENTS FIGURES SHOW SLIGHTLY LOWER IMPORTS AND EXPORTS BUT BEAR OUT THIS OVERALL PICTURE.  
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5. FOR THE NEXT YEAR 1975/76, THE BALANCE OF PAYMENTS IS LIKELY TO BE UNDER CONTINUOUS STRAIN. THE GOP'S CHIEF ECONOMIST HAS RECENTLY PUBLICLY STATED THAT HE VIEWED THE BALANCE OF PAYMENTS AS THE COUNTRY'S PRINCIPAL ECONOMIC PROBLEM IN THE YEAR AHEAD. IMPORTS ARE ALMOST CERTAIN TO BE ABOVE THE 1974/75 LEVEL, WITH THE GOP ESTIMATING THE RISE TO BE 27 PERCENT TO \$2.5 BILLION.

THIS MAY SEEM HIGH, BUT IN FY 75 THEY ROSE 54 PERCENT. OF IMPORTS, POL IS THE SINGLE LARGEST ITEM AND THE POL BILL WILL PROBABLY BE MORE THAN IN 1974/75 (ESTIMATED AT \$390 MILLION). WHEAT IMPORTS MAY COME TO \$270 MILLION (BASED ON GOP ESTIMATE OF 1.5 MILLION TONS), ALTHOUGH THE GOVERNMENT HOPES TO FINANCE THIS WITH PL-480 AND OTHER CREDITS.

6. WHILE THE GOP HAS PREDICTED A 20 PERCENT INCREASE IN EXPORT EARNINGS TO 1.25 BILLION, ACHIEVING THIS TARGET WILL BY NO MEANS BE EASY. THE EXPECTED GRADUAL END TO WORLD RECESSION SHOULD INCREASE COTTON YARN AND TEXTILE EXPORTS, BUT THE CURRENT DECLINE IN WORLD RICE PRICES AND THUS RICE EXPORT INCOME COULD COUNTER-BALANCE MUCH OF THIS. INVISIBLE RECEIPTS AND AID DISBURSEMENTS ARE EXPECTED TO BE AT OR SLIGHTLY ABOVE LAST YEAR'S LEVEL. THE GOP EXPECTS AID DISBURSEMENTS TO RISE SLIGHTLY, AND IS COUNTING ON A CONTINUED HIGH LEVEL OF DISBURSEMENTS FROM OPEC (\$500 MILLION LAST YEAR). DEBT SERVICE PAYMENTS WILL INCREASE. NET IMF DRAWINGS MAY NOT BE ABLE TO REACH TO SAME HIGH LEVEL AS IN 1974/75, SINCE PAKISTAN WILL HAVE TO RECONSTITUTE ITS SDR HOLDINGS AND SOME REPURCHASING WILL BE COMING DUE.

7. ACCORDINGLY, WE ANTICIPATE A LARGER OVERALL BALANCE OF PAYMENTS DEFICIT NEXT YEAR.  
BYROADE

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